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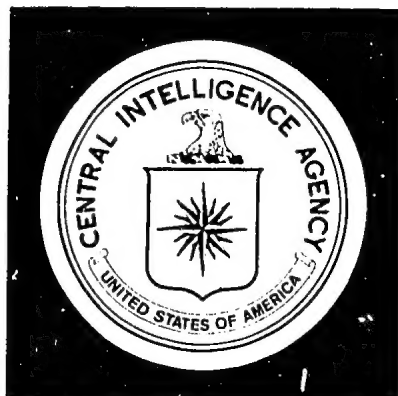
Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140014-2

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CIA/OER EIW 73-5-17



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IN/107, Hq.

Economic Intelligence Weekly

Secret

CIA No. 7446/73
17 May 1973

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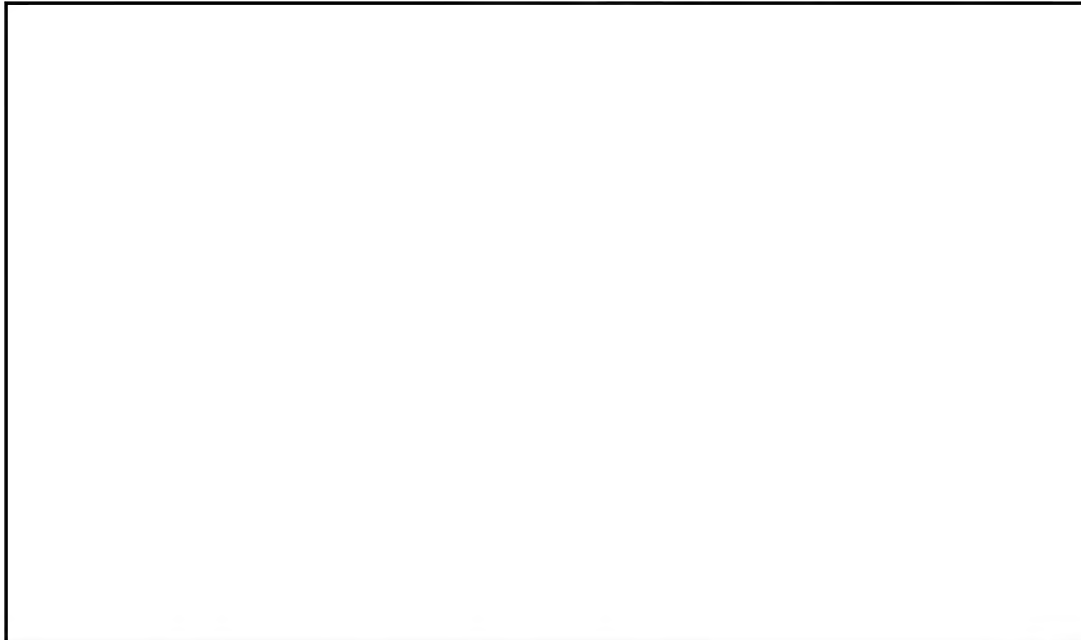
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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

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SECRET**ECONOMIC INTELLIGENCE WEEKLY****Notes**

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Chile's Labor Strife Cuts Copper Exports

Labor problems at the two largest nationalized mines should help keep the world copper market bullish, at Chile's expense. A month-old strike at the Teniente mine has cost Santiago about \$20 million in export earnings; this mine normally produces about one-fourth of Chile's copper. Workers at the even larger Chuquicamata mine went on a 48-hour sympathy strike last Friday and are considering a longer walkout. Copper miners, traditionally Chile's labor elite, have been growing more militant as inflation and shortages have eroded their living standards. [REDACTED]

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India Delays Additional Foodgrain Imports

A decision is expected this week on the quantity and type of grains – probably sorghum and wheat – to be purchased abroad for delivery during the latter half of this year. New Delhi still hopes that government collections from the domestic wheat crop will be large enough to avoid additional large-scale imports. The supply situation has improved slightly in recent weeks as procurements from the domestic harvest have risen and imports have continued to arrive. The government may be able to squeeze by until August, but shortages threaten to occur between then and November, when fall-harvested crops become available for consumption. [REDACTED]

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Moscow Apparently Looks to Brazil for Sugar

The USSR reportedly has signed a three-year agreement with Brazil to purchase 1.5 million to 2.0 million tons of sugar that would be worth roughly \$250 million to \$350 million at present world prices. Brazil denies making such a sale, but the deal is credible because Cuba promises to have another poor crop this year. With an output estimated at 5 million tons or less, Cuba will be unable to supply the USSR with all of the 1.6 million tons promised in the 1973 trade protocol and also meet its other export obligations. The Soviets plan to import at least 2.2 million tons in 1973 to meet domestic requirements and export commitments. [REDACTED]

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Burma Interested in US Private Investment

An official of Burma's Ministry of Planning and Finance has stated privately that Rangoon is prepared to negotiate an investment guaranty agreement with the United States. Such an agreement would permit the US Overseas Private Investment Corporation to issue political risk insurance to US investors in Burma. Last month, Burma invited interested US oil companies to compete with Japanese and other foreign firms for rights to conduct offshore exploration. Burma has been liberalizing its foreign and domestic economic policies in an effort to reverse the stagnation of production, investment, and exports experienced since 1962 under General Ne Win's "Burmese Way to Socialism". [REDACTED]

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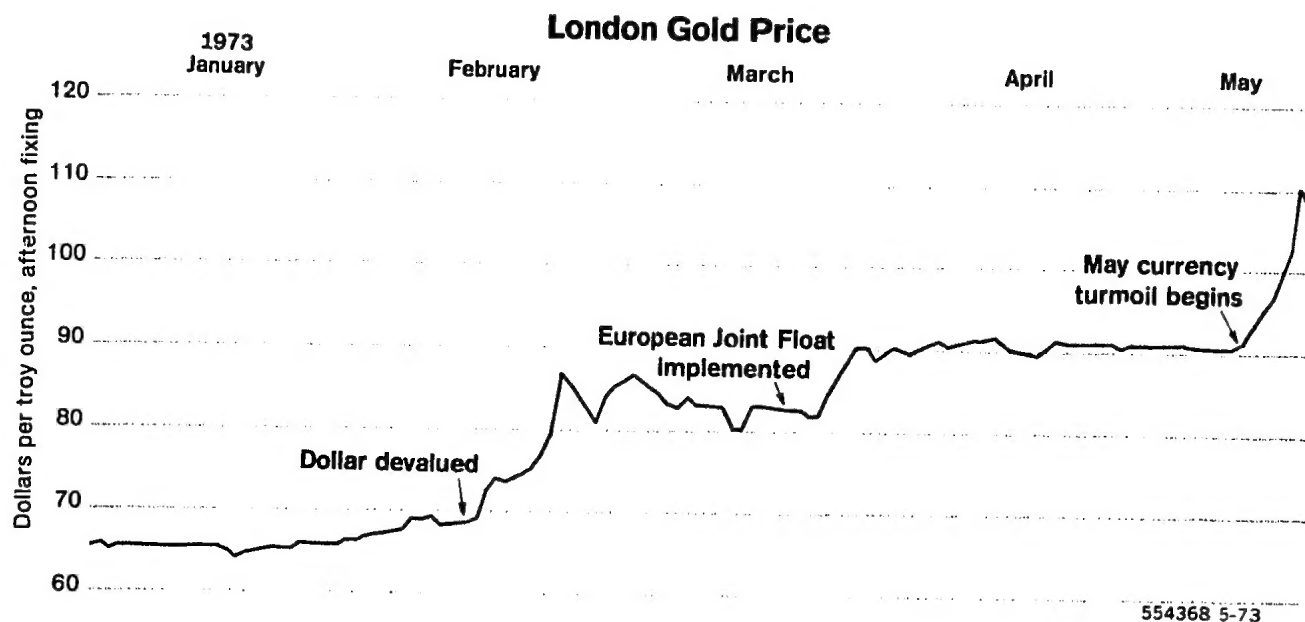
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**Exchange Rate Appreciation/Depreciation Against the Dollar
Since European Joint Float
Initiated on 19 March**

	Percent Change			
	7 May	14 May	15 May	16 May
Mark	-0.9	+1.0	+2.0	+1.6
Guilder	-2.1	+0.3	+1.0	+0.8
French franc	-0.4	+1.1	+2.6	+2.1
Sterling ¹	+1.3	+3.4	+4.3	+3.5
Swiss franc ¹	0	+2.4	+3.4	+3.0
Yen ¹	-0.3	0	+0.5	+0.6

1. Independently floating currency.

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Articles

Renewed Tensions in International Money Markets

European money markets have experienced their first severe speculative pressures since the joint float was initiated on 19 March.

- The dollar has come under strong attack in the last week for the first time since early March, with losses exceeding the gains made against the band currencies in earlier weeks. The pound reached its highest level since it was floated last June.
- The Bank of England is the only European central bank reported to have supported the dollar. Nevertheless, if the run on the dollar continues, the European participants in the joint float may well attempt, through limited intervention, to prevent too rapid an appreciation of their currencies vis-a-vis the dollar in order to minimize the impact on their foreign trade.



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Many traders attribute the dollar's problems primarily to the Watergate issue, but this has only added to an already pervasive uncertainty about the dollar in the wake of two devaluations. Dollar sales also reflect the New York Stock Exchange's poor performance, worries about the US balance of payments, and US inflationary pressures.

The dollar's weakening in Europe abruptly halted the Bank of Japan's heavy dollar selling in the Tokyo market. Foreign exchange banks and other private sources have replaced the central bank as a dollar supplier on the Tokyo market. Continued strong dollar demand for imports and foreign investment has caused the dollar to drop only moderately against the yen so far.

The free market gold price soared to a record high this week. The London gold price, which had stabilized at about \$90 an ounce between late March and early May, reached \$112 on 15 May before backing off somewhat. The attack on the dollar clearly has contributed to the demand for gold. Tight exchange controls on the Continent that have made it more

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difficult and expensive for money managers to shift funds among currencies have added to gold's attraction. Other factors in the price rise include reduced South African sales, reflecting reduced output because of high prices; a rumored Soviet-US gold arrangement; and Middle East tensions.



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Current Soviet Grain Prospects

Favorable planting weather and a massive sowing campaign have enhanced prospects for the Soviet Union's grain harvest this year. If the plan for spring sowings (about one-half complete) is successfully carried out and average growing conditions prevail, the outlook is for a total harvest of about 154 million tons of usable grain.

- This can be compared with 134 million tons in 1972 and an average of 149 million tons in the record years of 1970 and 1971.
- At this stage of development, however, such a projection is still very uncertain.

The outlook for winter grains is clearer than the prospects for total grain.

- Dry conditions in the winter grain belt last year led to a shortfall in fall sowings of 20%.
- A normal winterkill, taken together with subnormal precipitation since last fall, leads to a tentative output estimate of 37 million tons – about eight million tons more than the poor crop of 1972 but 12 million tons below the average for 1970-71.

The campaign is now under way for a record sowing of 104.5 million hectares of spring grains. This is 16.5 million hectares above the average for 1970-71. So far, the enormous amount of fieldwork required in this effort has gone smoothly, helped by the fact that the season is about two to three weeks early. The strategy in response to a shortfall in fall-sown breadgrains is to substitute spring-sown feed grains (barley and oats), which promise higher yields than spring wheat.

- It is too early to project spring grain yields at other than their long-term trend values, but these would give a spring grain harvest of about 117 million tons – 12 million tons above 1972 and 17 million tons above the average for 1970-71.

Even if this early projection of a crop of 154 million tons proves to be accurate, the USSR would need to import large amounts of grain to meet domestic and export requirements in fiscal year 1974. A large proportion of these imports may consist of relatively high-cost wheat. So far this year the Soviets have contracted for, or are rumored to have purchased, about 9 million tons of grain, much of which is scheduled for delivery by this fall.

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Brazilian-Japanese Economic Relations: Chronology of Recent Events

1972

- Jan Minister of Planning Reis Velloso visits Tokyo to discuss trade and investment proposals.
- Feb Banco do Brasil inaugurates a Tokyo branch.
Minister of Finance Delfim Neto visits Tokyo to participate in opening the Banco do Brasil branch and discuss prospective Japanese investments.
- Mar Export-Import Bank of Japan extends a \$36 million credit to Brazil's National Development Bank.
Ishikawajima do Brasil announces a \$15 million investment to expand its Guanabara shipyard.
- May C. Itoh & Co. announces that it will invest \$150 million to construct a wood pulp operation in conjunction with other Japanese firms and Brazil's Cia Vale do Rio Doce (CVRD).
- Oct Export-Import Bank of Japan, in conjunction with other Japanese banks, extends 15-year loans totaling nearly \$180 million to Brazil's three largest steel producers to help finance their expansion programs.
Minister of Finance Delfim Neto visits Tokyo again to talk with government and business leaders. Later in the month, Delfim announces that Brazil will float \$30 million in government bonds on the Japanese market in 1973.
Fuji Bank announces an agreement with the Banco America do Sul, Sao Paulo, to form a jointly owned development bank. The new bank is chiefly intended to help finance Japanese industrial operations in South America and is the region's first such Japanese venture.
Mitsubishi Chemical Industries Ltd. and Nissho-Iwai Company agree with Petrobras (the Brazilian state petroleum monopoly) to construct South America's largest vinyl chloride plant.
- Nov Keidanren, the Japanese Federation of Economic Organizations, sponsors a trade delegation to Brazil, which explores possible investments in the Bahia petrochemical complex, the Itaipu (Sete Quedas) powerplant, a nuclear powerplant, a steel mill to exploit Amazon iron ores, and numerous other projects.
- Dec Toyota announces its decision to expand its Brazilian operation to encompass passenger automobile production.
Sony announces that it will build a plant in Brazil to manufacture color television sets.

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- Jan Japanese aid to the Export Corridor Project is announced by a consortium of 24 Japanese banks, which extended \$256 million in credits to finance purchases of rail and other equipment. Another \$100 million is under consideration.
- Feb Brazilian Economic Mission of 70 Sao Paulo business leaders visits Tokyo, led by the State of Sao Paulo's Finance Secretary.
Banco do Estado de Sao Paulo opens a Tokyo branch.
Brazilian Ministry of Finance conducts a Tokyo seminar on the Brazilian economy for businessmen and government officials.
Mitsubishi Group sends a large delegation to Brazil to discuss investments in shipbuilding, mining, petrochemicals, food processing, etc. Upon departure, Mitsubishi's president states that the company is prepared to invest more than \$1 billion during the next five years.
- Mar Japanese Trade Fair is held in Sao Paulo with more than 100 firms participating; it probably is the largest trade fair Japan ever mounted in a foreign country.
Mitsui Group offers to invest up to \$1 billion in Brazil's Itaipu hydroelectric power project.
- May Kawasaki Steel Co. agrees to join with Brazil's National Steel Council in constructing a steel mill with an annual capacity of 5 million to 6 million tons - more than triple the size of Brazil's largest existing mill and the largest in Latin America.

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SECRET**Brazil's Growing Ties with Japan**

Brazil's economic ties with Japan are expanding rapidly. Impressed by its political stability, rapid growth, and abundant resources, Japanese leaders view Brazil as the emerging economic power in Latin America. They value it as a reliable source of raw materials, a potentially important export market, and a profitable locale for manufacturing operations aimed mainly at regional and US markets. Tokyo's activities are helped by Brazil's large and prosperous Japanese community, some members of which occupy high positions in business and government. Brazilians, for their part, see Japan as a growing market and source of capital, industrial technology (including nuclear energy expertise), and business know-how - fields where US influence long has predominated.

The rash of direct investment and loan decisions announced during the last year or so will enlarge the Japanese presence substantially. Some \$700 million in loans and direct investments have been authorized since the end of 1971, compared with the total of \$200 million to \$300 million invested in Brazil up to that time. Even larger spending is expected to result from recent visits by top Japanese business leaders. The Mitsubishi and Mitsui groups alone are considering investing more than \$2 billion in Brazilian operations during the next several years, and Kawasaki decided last week to help build Latin America's largest steel mill in Brazil. If all these plans are carried out, Tokyo's 1980 forecast of a \$4 billion private investment in Brazil could be on the low side.

The most important Japanese interests presently are in the iron and steel industry. Nippon Steel Company owns about 20% of one of the largest producers, the government-controlled USIMINAS company, and Japanese banks are heavily involved in financing expansion by other major steel firms. One of the country's leading steel users, the Ishikawajima do Brasil shipyard, is almost wholly owned by Japanese. This shipyard is currently building five large ships to carry iron ore to Japan, the main importer. Japan already has a foothold in the automobile industry; Toyota manufactures jeeps and other utility vehicles for the local market. Japan is also expanding its equity interests in industries producing motorcycles, heavy machinery, electronics, and textiles. In addition, Japanese loan capital and technical assistance are playing a major role in a transportation project designed to facilitate agricultural exports.

Japanese investments have sparked a rapid growth in trade. Brazil's purchases of Japanese products rose sixfold during 1969-72 to \$380 million - 9% of total imports. Despite the yen's revaluation, Japanese sales will increase considerably in the next few years because of heavy commitments for steelmaking, transport, and other equipment.

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SECRET**Arms Exports to the Third World, by Exporter¹**

	Million US \$							
	1966-72	1966	1967	1968	1969	1970	1971	1972
Total	17,095	2,060	1,750	2,140	2,170	2,940	3,015	3,020
United States ²	8,380	1,015	900	1,065	1,080	1,405	1,435	1,460
USSR	4,445	495	485	500	440	985	830	710
Western Europe	3,120	390	295	460	480	415	465	615
Eastern Europe	400	45	25	60	50	75	85	60
China	310	70	25	25	25	25	65	75
Other ³	440	45	20	30	95	35	115	100

1. Because of rounding, components may not add to the totals shown.

2. US data are by fiscal year and do not include some \$15.7 billion of arms provided under the Military Assistance Service Funded (MASF) program. MASF was designed to support non-US forces in Indochina and was provided directly from the US military budget. US data also do not include some \$700 million in naval equipment made available under the Ship Loan and Lease Program.

3. Includes Australia, Canada, Japan, New Zealand, South Africa, and small amounts from several Third World countries.

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Brazil's sales to Japan grew from about \$60 million in 1968 to \$200 million in 1972 (5% of total exports) and will become much more important. Long-term contracts call for a substantial rise in iron ore deliveries to Japan, already a customer for one-third of such sales. As part of its involvement in the Brazilian program to promote agricultural exports, Japan has agreed to buy more products such as cotton, corn, and perhaps soybeans. Rapidly expanding soybean output promises to allow Brazil to compete with the United States in Japan's large and growing market.

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Global Arms Flow to the Third World*

Arms imports by Third World countries totaled \$3 billion in 1972, about the same as in 1970 and 1971. The United States supplied about one-half of the arms, Communist countries (mainly the USSR) nearly 30%, and Western Europe most of the remainder. Shares of the market have not changed much over the last several years. In Western Europe in 1970-72, France and the United Kingdom each accounted for one-third of the shipments, with West Germany, Italy, and others trailing behind.

The bulk of the arms have gone to three trouble spots: to countries directly involved in the Arab-Israeli conflict (Israel, Egypt, and Syria), to the primary antagonists on the Indian subcontinent (India and Pakistan), and to the chief contenders for dominance in the Persian Gulf (Iran, Iraq, and Saudi Arabia).

During the last three years, suppliers have delivered increasingly complex weapons systems, including advanced surface-to-air missile systems, supersonic jet fighters, guided-missile patrol boats, radar-controlled anti-aircraft guns, and sophisticated tanks. This equipment has a high initial cost and requires extensive and continuing technical support.

In 1972, more than one-third of the US arms exports to the Third World were grants, with cash and credit sales making up the remainder. Many Soviet sales involve discounts from list price; the discounts amounted to about one-quarter of the sales volume in 1972. Details on terms of sale by Western Europe are incomplete, but grants play a considerably smaller role than in US sales.

Agreements concluded in the past few years assure a rise in deliveries to annual levels substantially above the current \$3 billion flow.

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